



New York City Housing Authority
Department of Internal Audit & Assessment (IA&A)

Minutes of Audit & Finance Committee Meeting
June 13, 2023

Board and Audit & Finance Committee Members:

Victor A. González, Chair of Audit & Finance Committee (Vice Chair of NYCHA)
Emma Wolfe, Board Member (*Absent*)
Mark N. Kaplan, Independent Member
Richard P. Kuo, Independent Member

NYCHA Staff Members - Present:

Jeffrey Lesnoy, Vice President & Controller, Financial Accounting & Reporting Services
Amita Patel, Deputy Controller, Financial Accounting & Reporting Services
Ah-Yat Lee, Director, Financial Accounting & Reporting Services - General Ledger
Judith Francis, Assistant Director, Financial Accounting & Reporting Services - General Ledger
Pakon Ho, Assistant Director, Financial Accounting & Reporting Services - General Ledger
Georgiana Okoroji, Vice President, Financial Planning & Analysis
Maria Perez, Assistant Director, Financial Accounting & Reporting Services - General Ledger
David Sunshine, Accountant, Financial Accounting & Reporting Services - General Ledger
Jason E. Goldberg, Director & Chief of Corporate Affairs, Legal Affairs
Brad Greenberg, Chief Compliance Officer, Office of the EVP for Compliance
Wilma Huertas, Special Advisor to the Chief Executive Officer
Mia Hippolyte, Board Committee Coordinator
Terrence H. Clarke, Acting Director, Department of Internal Audit & Assessment
Anil Agrawal, Assistant Director, Department of Internal Audit & Assessment
Avik Das, Administrative Auditor, Department of Internal Audit & Assessment
James Ecock, Administrative Auditor, Department of Internal Audit & Assessment
Frank Han, Quality Assurance Specialist, Department of Internal Audit & Assessment

Deloitte & Touche LLP – Present:

Jill Strohmeier, Lead Engagement Managing Director
Alexander Harvey, Manager
Darshan Patel, Senior Manager

Technical Support Team:

Humberto Rosero, Andy Nagy

A meeting of the Audit & Finance Committee (AFC) members of the New York City Housing Authority (“NYCHA” or the “Authority”) was held on June 13, 2023, at approximately 10:00 AM.

Terrence H. Clarke, Acting Director of the Department of Internal Audit & Assessment, commenced the meeting by welcoming the Audit & Finance Committee members and the attendees.

I. Approval of Audit & Finance Committee Minutes of April 17, 2023:

Upon motion duly made and seconded, the committee members approved the minutes of the April 17, 2023, Audit & Finance Committee meeting.

II. Review of NYCHA (Consolidated): > Annual Comprehensive Financial Report (ACFR) for 2022

Vice President and Controller Jeffrey Lesnoy discussed the implementation of GASB 87 and its impact on accounting practices and 2022 financial reporting. GASB 87 established a uniform approach to lease accounting based on the principle of leases are financings of the underlying assets. Mr. Lesnoy noted the following:

- The 2021 financial statements were restated in order to compare them to the 2022 financial statements under GASB 87. The restatement resulted in a \$23 million reduction in the net position.
- Hundreds of transactions were reviewed for GASB 87 eligibility, but less than 30 transactions met the criteria and materiality threshold requiring GASB 87 accounting classification.
- For leases in which the Authority was the lessee, the right to use assets¹ had a total value of \$824 million with a corresponding lease liability.
- For leases in which the Authority was the lessor, lease receivables totaled about \$25 million with a corresponding deferred inflow of resources.
- Other GASB 87 impacts include but are not limited to changes in timing of revenue and expense recognition, elimination of rental expense, new requirements to amortize right-to-use assets, and new requirements to recognize interest expense on lease liability.

Mr. Lesnoy provided an update to rent and collection activities. Rent collections 2019 (pre-Covid) were \$1.058 billion, \$967 million in 2020, continuing to decline to \$873 million in 2022. Tenant rent arrears at the end of 2019 totaled \$111 million and rose to \$439 million at end of 2022. Mr. Lesnoy noted that about 33,000 households applied for the NY State Emergency Rental Assistance Program² (ERAP) for a total of \$128 million in claims. In May 2023, the State legislature passed a budget bill that included \$128 million in ERAP funds and an additional \$35 million in rent support for NYCHA, totaling \$163 million. Mr. Lesnoy expects the ERAP payments will be received over time as ERAP applications are processed.

In response to Audit & Finance Committee Chairman Victor González’s inquiry pertaining to the allocation of the additional \$35 million in rental support, Mr. Lesnoy stated that management may decide to allocate the funds to tenants in arrears who did not apply for ERAP funds. Mr. Lesnoy noted that an

¹ The right to use assets consist mainly of NYCHA’s six office leases and several equipment leases. The value of each lease is amortized over the life of the lease and the corresponding liability is recorded on the financial statements.

² The ERAP was created by NY State to assist tenants with low to moderate income impacted by the Covid pandemic with rental arrears and utility arrears payments. NY State stopped accepting ERAP applications after January 20, 2023.

ERAP allocation decision has not been finalized and will inform the Committee on this matter after the allocation decision is finalized.

In response to Independent Committee Member Richard Kuo's inquiries regarding NYCHA's plans to reverse the trend of rent nonpayment and what current steps NYCHA has taken to address this issue, Mr. Lesnoy indicated that tenants covered by ERAP were temporarily protected from court challenges and aggressive collection efforts. NYCHA can provide repayment plans to tenants behind on rent. Legal action may be necessary if rent collection attempts are not successful. Mr. Lesnoy will provide the Committee with more details on this topic.

In response to Independent Committee Member Mark Kaplan's inquiry on how the financial statements will be impacted after NYCHA determines which tenants to collect from, Mr. Lesnoy indicated that \$116 million in the Allowance for Doubtful Accounts was reversed based on the expectation of receiving ERAP funds. Also, the supplemental \$35 million in state rent funding is expected to further reduce the Allowance for Doubtful Accounts in 2023 as the funds are received.

Mr. Lesnoy discussed the pollution remediation obligation pertaining to lead-based paint. The increase in liability from \$3.1 billion in 2021 to \$3.7 billion in 2022 was attributed to NYC Local Law 66³ which requires stricter standards for lead and retesting of all units. Under the new standard, with 18% of total units tested, 35% of the tested units have positive lead readings. This compares to 27% of the tested units with positive lead readings under the old standard. This change in standard has resulted in a \$765 million increase in estimated costs over the 2021 liability and is the primary driver for the increase in the 2022 pollution remediation obligation.

Mr. Lesnoy stated that, as part of the 2019 HUD agreement, The City committed \$2.2 billion over a 10-year period to assist NYCHA in meeting various obligations. In an Action Plan approved by the Federal Monitor, \$772 million of the \$2.2 billion was allocated for lead abatement. The \$772 million will be recognized as revenue on a cost reimbursement basis over the 10-year period. Under GASB 49 guidelines, the \$772 million cannot be applied to reduce the \$3.7 billion liability estimate for lead abatement.

In response to Mr. Kaplan's inquiry on whether an inflation factor is used in the lead abatement liability estimate, Mr. Lesnoy stated that GASB 49 does not allow for the inclusion of an inflation factor when the lead abatement liability estimate is calculated. However, the Authority is required to evaluate liability estimates regularly and to make estimate adjustments that align with current costs.

In response to Mr. Kuo's inquiry concerning The City's \$2.2 billion commitment and if funding is subject to annual appropriations and passing of The City budget in order for NYCHA to receive the \$772 million, or is it a capital item that The City has set aside over a 10-year period to commit the money, Chief Compliance Officer Brad Greenberg indicated that it is a capital item allocated in The City's capital budget, and therefore not an appropriation. If The City were to try to reduce the commitment amount, it would have to go through a process that involves the Federal Monitor and the court, as The City's commitment was part of the 2019 HUD agreement.

In response to Mr. González's inquiry about the \$772 million for lead abatement possibly running out due to the increase of abatement activities to comply with Local Law 66, Mr. Greenberg indicated that the

³Local Law 66 requires lead to be abated of at a lower reading of 0.5 mg per square centimeter from the previous standard of 1.0 mg. per square centimeter.

abatement estimate is impacted by where the lead is found in each premise inspected. Lead paint on walls is more costly to abate than lead found on window frames. Once lead-contaminated window frames are removed off premises, the additional costs of interim control and monitoring are avoided. Mr. Greenberg stated an additional \$171 million for lead abatement from The City, and HUD grants have been available in the past. Also, properties under the PACT program have undergone lead abatement, so Mr. Greenberg believes NYCHA has enough funds to address lead abatement going forward.

In response to Mr. González's inquiry regarding Local Law 33⁴ deadline in the year 2050, the start of the work, and the impact on the financial statements, Mr. Lesnoy stated when expenses are incurred, they would likely be capitalized. As to the start of any Local Law 33 work activities, Mr. Lesnoy indicated that a response would be provided at a later time. *IA&A will follow up for a response.*

Mr. Lesnoy discussed events related to the financial statements, including the following:

- Operating revenue increased by \$74 million or 8% to \$1.062 billion, primarily due to the \$116 million ERAP adjustment made to the Allowance for Doubtful Accounts. Without this adjustment, operating revenue would have decreased by \$42 million or 5%.
- Rent collection pattern similar to 2021. ERAP covers a maximum of 12 months of unpaid rent. Once ERAP settlement has occurred, this will provide NYCHA with additional flexibility in collecting outstanding rent through payment plans, more aggressive collection actions and/or legal actions.
- PACT transactions involving the transfer of ~5,900 units or 4% of NYCHA units in 2022 had a corresponding negative 4% impact on rent collections.
- Operating expenses increased by \$372 million or 9% to \$4.7 billion including the following factors:
 - ✓ Rent for leased dwellings (Section 8 payments) increased by \$133 million due to higher Housing Assistance Payments per voucher and an increase in the number of voucher units.
 - ✓ General and administrative expenses were up \$212 million largely due to expected increases in future claims within the self-insured general liability program and due to an increase in pension expense. The increase in pension expense is due to changes in pension plan investment income as a result of volatile markets in 2022.
 - ✓ Maintenance and operations expenses increased by \$69 million, and utilities increased by \$49 million.
 - ✓ OPEB (Other Post-Employment Benefits) expense decreased by \$99 million due to a change in discount rate assumptions. The discount rate was 2.25% in 2021 and 4.31% in 2022.
- Non-operating revenues increased by \$78 million or 3% to about \$3.2 billion primarily due to:
 - ✓ \$130 million increase in subsidies and grants.
 - ✓ \$29 million increase in the Loss from change in fair value of investments resulting from rising interest rates. Bond securities are marked-to-market and generally held to maturity.
 - ✓ While Interest expense was \$5 million lower in 2022, at \$56 million, it is noteworthy to disclose that about half of interest expense in both 2021 and 2022 was related to the accounting of lease liability under GASB 87.
- Special item for Pollution remediation costs was \$721 million in 2022 largely due to the impact of

⁴ requires owners of buildings that meet the criteria outlined in the law to annually measure their energy and water consumption through a process called benchmarking. The law standardizes this process by requiring building owners to utilize the United States Environmental Protection Agency's (EPA) online benchmarking tool, Energy Star Portfolio Manager®, to enter and submit the usage data to The City by May 1st of every year. This data increases transparency regarding properties' annual energy and water usage – the first step for building owners and tenants in making their buildings operate more efficiently.

stricter lead standards under Local Law 66 which requires more units to be abated.

- Largest capital contributions came from the federal capital fund at \$302 million, FEMA at \$228 million, and City of New York at \$180 million.
- The net position at the end of 2022 was \$1.2 billion, down by \$397 million from last year.
- Capital assets in the aggregate increased by \$352 million to \$9.757 billion due to continued increase in building improvements. Capital assets include \$782 million of Right to use assets in 2022 and \$824 million in 2021 as recorded under GASB 87.
- Total cash and investments in the aggregate totaled \$1.284 billion at December 31, 2022, which was a \$354 million dollar decrease from the prior year.
- 2022 current liabilities include a \$92 million reclassification of OPEB liability⁵.
- OPEB liability (non-current) decreased by \$672 million largely due to an increase in discount rate from 2.25% to 4.31%.
- A historical miscalculation of the net investment in capital assets was adjusted in the 2022 financial statements. The amount of the adjustment was approximately \$200 million⁶.

III. NYCHA Public Housing Preservation I, LLC (“LLC-I”): Annual Comprehensive Financial Report (ACFR) for 2022

Mr. Lesnoy provided financial information for NYCHA Public Housing Preservation I, LLC (LLC-I), including the following:

- Rent and revenue increased by \$11 million largely due to the reversal of the Allowance for Doubtful Accounts driven by state-approved ERAP funding.
- Total operating expenses were up by \$15.3 million.
- Subsidies increased by \$12.4 million largely due to an increase in federal operating subsidy.
- A special item of \$68.6 million liability was due to the impact of Local Law 66 on lead abatement activities.

In response to Mr. Kuo’s inquiry concerning a \$104 million change in net position from 2021 and 2022, Mr. Lesnoy stated several factors that contributed to the decrease, including the \$69 million in lead remediation, low rent collections, and higher costs of services and materials.

Mr. Kaplan indicated there was a blank line for unrealized in the investment section for LLC-I. Mr. Lesnoy stated that this appears to be an error and will review this further. *(The error was corrected in the final financial statements.)*

In response to Mr. Kuo’s inquiry regarding which developments are included in LLC-I, Director & Chief of Corporate Affairs Jason E. Goldberg stated the names and locations of the 13 developments in

⁵ The \$92 million reclassification of non-current over to current liability affected OPEB liability expected to be paid over the next 12 months. This matter originally came up as a Deloitte recommendation in its 2021 Management Letter. At the time of this AFC meeting, the \$92 million is reflected in unearned revenue and other current liabilities. Mr. Lesnoy stated that it will be recorded in a separate OPEB current liability line item.

⁶ The historical miscalculation covered previous years but was not noticed until 2022. The adjustment was made and accounted for in the 2022 financial statements. The \$200 million adjustment was determined to be immaterial and did not require a restatement of the 2021 financial statements. Deloitte was consulted and agreed with management on the action taken on this matter.

LLC-I⁷.

Mr. Lesnoy discussed the Statement of Net Position of LLC-I and the Statement of Revenues, Expenses and Changes in Net Position, including the following items:

- Cash decreased by \$25 million primarily due to rent collection challenges and expense increases.
- Capital assets decreased by \$17 million largely due to \$26 million dollars of depreciation partially offset by \$9 million in new building improvements.
- A significant change in liabilities was an increase of \$62 million for pollution remediation obligations, primarily as a result of The City's new lead standard which required a \$69 million Special item to be recorded.
- Operating revenues increased by \$11 million largely due to the reversal of allowance for doubtful accounts relating to ERAP.
- Total operating expenses increased by \$15 million, primarily resulting from \$7 million increase in utility costs, \$4 million increase in apartment paint costs and \$3 million increase in plumbing and heating contracts.
- Subsidies increased by \$12 million, largely due to an increase in federal operating subsidy.

IV. Deloitte's Audit Committee Letter (SAS 114 Letter) and Management Representation Letter for 2022 Audit

Jill Strohmeier, Lead Engagement Managing Director, indicated that the Deloitte team is in the process of completing audits of the NYCHA and the NYCHA Public Housing Preservation I, LLC financial activities, as of the year ended December 31, 2022. The audits are in accordance with two sets of standards, the Generally Accepted Standards set forth by the American Institute of Certified Public Accountants (AICPA) and Generally Accepted Government Auditing Standards (GAGAS) set forth by the Government Accountability Office (GAO) under the Comptroller General. The report and issue date is targeted for June 24th.

Ms. Strohmeier indicated all significant accounting policies can be found in the notes of the financial statements. The most significant change was the adoption of GASB 87, and its policies related to lease accounting.

Ms. Strohmeier stated that Deloitte agreed with management on an adjustment made in 2022 to correct a historic miscalculation found in the 2021 financial statements related to the net investment of capital assets. The adjustment amount of \$200 million was deemed immaterial and did not require the 2021 financial statements to be restated.

Ms. Strohmeier stated that there were no material misstatements brought to the attention of management during the course of the audit.

Ms. Strohmeier stated any deficiencies of internal controls will be shared with the Committee in September.

⁷ Stapleton in Staten Island; Castle Hill, Marble Hill, and St. Mary's Park in the Bronx; Bayview, Bushwick, and Marlboro in Brooklyn; Amsterdam Addition, Chelsea, Dew Hamilton, Samuel Houses, Manhattanville, and Rutgers Houses in Manhattan.

V. Recommend Approval of The Consolidated Annual Comprehensive Financial Report for 2022 To The Board

The motion was made to approve the Consolidated Annual Comprehensive Financial Report for 2022, and the motion was approved by the Committee.⁸

VI. Deloitte’s Status Update On 2022 Single (Compliance) Audit

Senior Manager Darshan Patel stated the following items related to the Single Audit status:

- Completion of the yearly risk assessment.
- Selection of three federal programs to audit: Public and Indian Housing – Capital (HUD), Public and Indian Housing – Operating (HUD), and the Disaster Grant Program (FEMA).
- Sample transactions and special tests have been selected.

The deadline for completing the audit is September 30th, 2023.

VII. Other Matters Discussed

Mr. González inquired about changes to the letter for the General Deputy Assistant Secretary of Public and Indian Housing to request a waiver of test for lead remediation from the Single Audit since lead remediation is in the 2019 HUD agreement and may take 20 years to complete. The waiver would preclude Deloitte from future testing of lead remediation and reporting the same finding and recommendation each year. Mr. Kuo suggested a more explicit narrative that clarifies the waiver request. The Committee agreed the letter should be modified to clarify the waiver request. Ms. Huertas will provide a modified letter for the Committee review and signature, with the letter to be sent out to HUD so the test can be removed from the Single Audit.

Adjournment

Mr. Clarke thanked everyone for their participation in the meeting. Upon motion made and duly seconded, the meeting was adjourned at 12:00 PM.

The next meeting is scheduled for September 12, 2023, at 10:00 AM.

⁸ A separate motion was made to approve the 2022 Comprehensive Financial Statements for LLC-I, and that motion was approved by the Committee.